

Message Text

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41

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 SS-15 SSO-00 NSC-05

NSCE-00 INR-07 INRE-00 SP-02 AID-05 EB-07 CIEP-02

TRSE-00 STR-04 OMB-01 CEA-01 SAM-01 SAJ-01 CIAE-00

COME-00 FRB-01 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 AGR-10 TAR-01 HEW-06 DODE-00 PA-02 PRS-01 AF-06

L-03 H-02 FEAE-00 OES-05 /141 W
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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 5417

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

USMISSION GENEVA

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REF: LISBON 6740

SUMMARY: FIRST GROUP OF LONG-AWAITED MEASURES DESIGNED TO STABILIZE ECONOMY APPROVED AND PUBLISHED BY COUNCIL OF MINISTERS ON DECEMBER 20. ACTIONS INCLUDE INCREASES, REDUCTIONS AND OTHER TAX ADJUSTMENTS; BOND ISSUES OF \$800 MILLION TO COVER BUDGET DEFICIT AND PROVIDE COMPENSATION FOR OWNERS OF NATIONALIZED BANKS OF ISSUE; APPROVAL OF FOREIGN INVESTMENT CODE; INCENTIVES FOR EXPORTERS; PROTECTION FOR IMMIGRANT REMITTANCES; NEW REGULATIONS TO BUILD CONFIDENCE IN BANKING SYSTEM; REDUCTION IN DISCOUNT RATE; AND \$12 MILLION IN ADDITIONAL LOAN GUARANTEES FOR VIRTUALLY BANKRUPT FIRMS. COMPLETE DETAILS NOT YET AVAILABLE FOR MOST MEASURES. ANOTHER GROUP OF MEASURES, INCLUDING WAGE POLICIES, WILL BE CONSIDERED DECEMBER 23. COMMENT FOLLOWS SEPTEL. END SUMMARY.

1. FOLLOWING ARE MOST IMPORTANT OF MORE THAN 30 ECONOMIC MEASURES APPROVED BY COUNCIL OF MINISTERS ON DECEMBER 20. OFFICIAL COMMUNIQUE NOTED SOME MEASURES WILL ENTAIL SACRIFICES BUT ARE NECESSARY TO BEGIN ECONOMIC AND FINANCIAL RECUPERATION, TO REDUCE HEAVY GOP BUDGET DEFICITS, AND TO DEFEND AGAINST "DANGEROUS" BALANCE OF PAYMENTS SITUATION. COMMUNIQUE REQUESTED VOLUNTARY ACCEPTANCE BY POPULACE AND STRESSES THAT POOREST SECTORS WILL BE LEAST AFFECTED. ADDITIONAL SERIES OF ACTIONS, INCLUDING WAGE POLICIES, WILL BE DISCUSSED BY MINISTERS DECEMBER 23.

2. TAX MEASURES:

A) INHERITANCE, GIFT AND REAL ESTATE TRANSFER TAXES WERE "ADJUSTED" TO CORRECT "EXCESSIVE ACCUMULATION OF GOODS AND TO DEVELOP INCREASED EQUITY OF WEALTH". REAL ESTATE FIRMS GIVEN TWO YEARS ADDITIONAL EXEMPTION FROM SOME REAL ESTATE TRANSFER TAXES.

B) URBAN AND RURAL REAL ESTATE TAXES WERE INCREASED AND PAYMENT SIMPLIFIED. AGRICULTURAL PROFITS OVER \$2000 WILL BE TAXED 15 PER CENT; THOSE PROFITS BELOW THIS AMOUNT ARE TAX-EXEMPT.

C) CAPITAL GAINS TAXES WERE INCREASED, AND TAXES ON INTEREST FROM BANK DEPOSITS LOWERED, BOTH TO 10 PER CENT.

D) SALES TAXES WERE REVISED AND MODIFIED IN ORDER TO LIMIT UNCLASSIFIED

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CONSUMPTION. ESSENTIAL GOODS GENERALLY RETAIN CURRENT EXEMPTION, WHILE TAXES WERE REDUCED ON LOW-COST RADIOS AND APPLIANCES AND INCREASED TO 20 PER CENT, 30 PER CENT OR 40 PER CENT ON LUXURY GOODS. THE BASE RATE IS FIXED AT 10 PER CENT.

E) AUTOMOBILE TAXES WERE ADJUSTED WITH CHEAPEST CARS ("THOSE TYPES OF CARS BELONGING TO THE WORKING CLASS") RECEIVING FAVORABLE RATES. ANGOLAN REFUGEES WERE EXEMPTED FROM 1976 AUTO TAXES.

F) STAMP TAXES ON INSURANCE POLICIES, LOTTERY AND OTHER GAMBLING PRIZES, AND OTHER TRANSACTIONS WERE UP-DATED OR INCREASED. THE TAX FOR EXPORT INSURANCE POLICIES WAS REDUCED.

3. ENERGY CONSERVATION MEASURES WERE APPROVED BUT NO DETAILS WERE RELEASED.

4. A 19 MILLION CONTO (ABOUT \$650 MILLION) INTERNAL BOUND ISSUE TO COVER INCREASED 1975 BUDGET DEFICIT WAS RECOMMENDED TO REVOLUTIONARY COUNCIL FOR ITS APPROVAL.

5. FOREIGN INVESTMENT CODE WAS APPROVED PROVIDING "ADEQUATE CONDITIONS, LIMITATIONS AND GUARANTEES". NEED FOR FOREIGN INVESTMENT RECOGNIZED PROVIDED IT FOLLOWS NATIONAL ECONOMIC AND DEVELOPMENT PRIORITIES. REGULATIONS REPORTEDLY COVER ENTRANCE AND REPATRIATION OF CAPITAL AND TRANSMISSION OF DIVIDENDS. CODE GUARANTEES SECURITY AND PROTECTION OF DIRECT INVESTMENT. (TEXT OF CODE NOT PUBLISHED)

6. IMMIGRANT REMITTANCES WILL BE PROTECTED THROUGH CREATION OF FOREIGN CURRENCY ACCOUNTS. INTEREST WILL ALSO BE PAID IN FOREIGN FUNDS AND SOME TIME DEPOSITS WILL BE STRUCTURED TO PROVIDE IMMEDIATE AVAILABILITY OF FUNDS UPON DEMAND.

7. MONETARY POLICY MEASURES:

A) BANK OF PORTUGAL DISCOUNT RATE REDUCED FROM 7.5 PER CENT TO 6.5 PER CENT.

B) SELECTIVE CREDIT POLICIES WILL BE REVISED AND EXPANDED IN ORDER TO FURTHER BENEFIT AGRICULTURAL, RANCHING AND FISHING SECTORS, PRODUCTION COOPERATIVES, AND PURCHASE OF FIXED CAPITAL GOODS. DISCOUNT RATES ON ABOVE REDUCED SIGNIFICANTLY TO 3 PER CENT.

C) OTHER INTEREST RATES WILL BE RESTRUCTURED.
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D) BANK LEGAL RESERVE REQUIREMENTS WERE REVISED.

8. BANKING MEASURES:

A) DECREE-LAW WAS APPROVED REGULATING OPERATION OF NATIONALIZED BANKS, INCLUDING THEIR LEGAL STATUTES, RULES GOVERNING MANAGEMENT-WORKER RELATIONS, FORMATION AND SIZE OF CAPITAL AND RESERVES, FINANCIAL MANAGEMENT, AUDITING PROCEDURES, AND SERVICES.

B) AUTHORIZATION APPROVED TO ISSUE THREE INTERNAL BOUND ISSUES TOTALLING 4 MILLION CONTOS -(ABOUT \$160 MILLION) TO COMPENSATE OWNERS OF THREE BANKS OF ISSUE NATIONALIZED IN 1974 (2.5 MILLION CONTOS FOR BANCO NACIONAL ULTRAMARINO, .9 MILLION CONTOS FOR BANCO DE ANGOLA, AND .5 MILLION CONTOS FOR BANK OF PORTUGAL).

C) PURGES OF PERSONNEL IN THE NATIONALIZED BANKING AND

INSURANCE COMPANIES WILL BE REVIEWED TO ASSURE THAT THE PROCESS WAS LEGAL; ARBITRARY FIRINGS DICTATED BY POLITICAL REASONS WILL BE "CORRECTED".

D) RESOLUTION OF MINISTERS CONFIRMED THAT ONLY REVOLUTIONARY COUNCIL AND MINISTRY OF FINANCE CAN FREEZE BANK ACCOUNTS. SECRECY AND BANKING ETHICS WILL BE ASSURED TO PROTECT DEPOSITORS' INTERESTS.

E) FREE ACCESS BY OWNERS TO SAFE-DEPOSIT BOXES WAS GUARANTEED UNDER CERTAIN CONDITIONS.

F) DEBTS OWED BY MOZAMBIQUE DEPARTMENT OF BANCO NACIONAL ULTRAMARINO TO CREDITORS WHICH WERE NOT PAID BECAUSE OF LACK OF EXCHANGE WILL BE LIQUIDATED BY GOP BY JUNE 1976.

9. OTHER MEASURES:

A) MINISTERS APPROVED FIRST READING OF LAW DEFINING THE CONCEPT AND OPERATING PRINCIPLES OF PUBLIC ENTERPRISES.

B) REGULATIONS COVERING USE AND INVESTMENT OF AVAILABLE BANK FUNDS AND DISPOSITION OF INTEREST EARNED THEREFROM WERE REVISED AND APPROVED.

C) DECREE-LAW WAS APPROVED TO PROTECT EXPORTERS AGAINST RISKS OF EXCHANGE RATE CHANGES AND PRODUCTION COST INCREASES THROUGH PROVISION OF INSURANCE BY NATIONAL CREDIT INSURANCE COMPANY.

D) COMMISSION WAS ESTABLISHED TO STUDY INTEGRATION OF THE AUTONOMOUS NATIONAL WELFARE FUND INTO THE CENTRAL GOVERNMENT MACHINERY.

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E) MINISTERS APPROVED \$12 MILLION IN GUARANTEES FOR BANK LOAN FOR FOUR LARGE "SALVAGEABLE" FIRMS IN FINANCIAL DIFFICULTIES IN ORDER TO CONSERVE EMPLOYMENT. FIRMS ARE: TORRALTA, TOURING GROUP, GRAO PARA, AND DUARTE FERREIRA.

F) GOP WILL ATTEMPT TO ESTABLISH REGULATIONS GOVERNING PAYMENT OF INTEREST OF BONDS ISSUED FOR DEVELOPMENT PROJECTS IN ANGOLA. PAYMENT WILL BE LIMITED TO THOSE BONDS PHYSICALLY IN PORTUGAL.

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